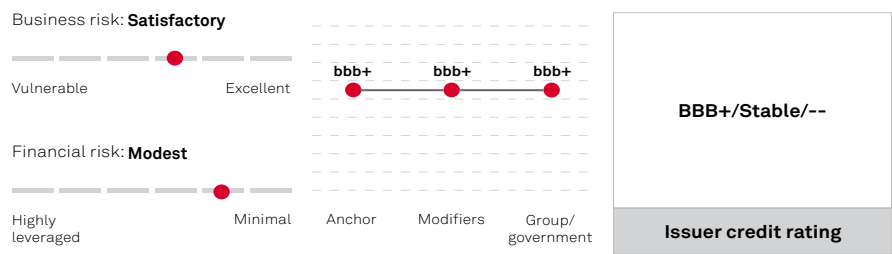


Alfa Laval AB

December 23, 2024

Ratings Score Snapshot



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Credit Highlights

Overview	
Key strengths	Key risks
A leading global market position, with its key technologies--separation, heat transfer, and fluid handling--enjoying market shares of between 10% and 35%.	Some exposure to cyclical end markets such as shipping, and to a minor extent oil and gas (O&G), making the top-line susceptible to some volatility.
An expanding portfolio of climate friendly technologies and solutions, supported by megatrends such as decarbonization and energy efficiency, which underpins its top line and order intake.	Relatively small, but expanding, presence in the aftermarket, representing about 30% of sales.
Solid profitability track record, with S&P Global Ratings-adjusted EBITDA margins forecast to exceed 18% through the cycle (average adjusted EBITDA margin of 18.9% between 2018 and 2023).	Potential for S&P Global Ratings-adjusted funds from operations (FFO) to debt to fall below the 45% commensurate with the rating if headroom under the target reported net debt to EBITDA threshold of 2x is used up.
Above-average financial flexibility for the rating, with FFO to debt expected to approach 100% in 2024, after 70.7% in 2023.	

Strong organic demand led to revenue reaching about Swedish krona (SEK) 48.6 billion (about €4.3 billion) in the first nine months of 2024, up 8% compared with the same period a year ago, and the group's book to bill reached 1.17x.

In addition, the company's order backlog was a record-high of about SEK52.1 billion at the end of the third quarter, up 12% compared with SEK46.4 billion as of Sept. 30, 2023. As a result, under our revised base case, we anticipate revenue growth of 7% in 2024 to SEK68.0 billion, up from SEK63.6 billion in 2023. This will be primarily due to strong growth in the Marine division, where sales increased about 18% in the first nine months of 2024 to SEK15.9 billion. The Marine division has benefitted from increased shipbuilding activity and demand for solutions to reduce the carbon dioxide emissions of fleets to achieve emissions reduction targets. This has offset softening demand in the Food & Water division, where short-cycle business has been affected by the weaker macroeconomic environment, and the Energy division, which has been subdued by significantly lower volumes in heating, ventilation, and air conditioning business after a record year in 2023, due to stock building of heat pumps. For 2025 and 2026 we anticipate that the company's revenue growth will normalize and expand by 2%-4%, mainly supported by the Energy division. We expect the growth in this business unit to be driven by the normalization of the destocking of heat pump components and anticipated rapid expansion of data centers.

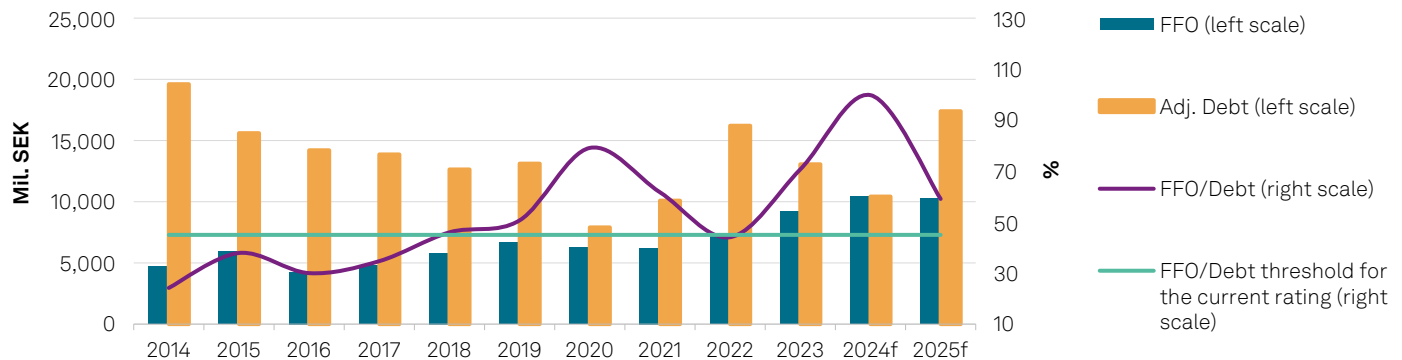
We anticipate S&P Global Ratings-adjusted EBITDA margins improving to about 19.0% in 2024-2025 from 18.3% in 2023, driven by a significant improvement in the profitability of the marine segment.

For the first nine months of 2024, the segment's company-adjusted EBITA margin improved to 18.4% compared to 13.6% for the same period last year. This reflects higher volumes as the shipbuilding market recovers from a low-cycle period, resulting in better utilization and cost absorption, as well as the turnaround in the offshore segment, which now supports margins, thanks to better market conditions and improved execution. We expect this segment can maintain this level of profitability, due to better supply-demand fundamentals, higher replacement needs, and a better invoicing mix, with a higher share of revenue from services. The profitability improvement in the Marine division should more than offset the slight margin deterioration in the Energy division, where company-adjusted EBITA margin for the first nine months of 2024 declined to 19.9% from 21.9% for the same period in 2023, and in the Food & Water division, where it declined to 15.1% from 16.1%. We continue to expect that Alfa Laval will maintain its track record of S&P Global Ratings-adjusted EBITDA margins exceeding 18% over the cycle.

Alfa Laval is set to increase its rating leeway and strengthen its balance sheet for the second consecutive year, with FFO to debt nearing about 100% in 2024 thanks to solid FOCF in the absence of material acquisitions.

We believe that Alfa Laval will sustain high free operating cash flow (FOCF) of SEK6.5 billion-SEK7.5 billion annually in 2024-2025, versus SEK6.4 billion in 2023, thanks to its resilient operating performance. This is despite continued relatively elevated capital expenditure (capex) of about SEK2.5 billion-SEK3.0 billion per year to support strategic investments (SEK2.4 billion in 2023), which represent roughly 4% of sales per year. For 2024, we anticipate cash flow generation will additionally benefit from another working capital release, which we project will be similar to the SEK400 million recorded in 2023. This follows the SEK3.2 billion absorption in 2022 due to post-pandemic supply chain disruptions, when the company's FOCF decreased to SEK1.2 billion. We expect Alfa Laval's S&P Global Ratings-adjusted debt will decline to about SEK10.4 billion at year-end 2024 after SEK13.1 billion in 2023, leading to a stronger balance sheet. Together with a robust topline and improving profitability, this will lead to adjusted FFO to debt approaching 100% by the end of the year after 71% in 2023, implying ample headroom at the current rating level.

Alfa Laval AB--FFO to debt evolution



SEK--Swedish krona. f--Forecast. Source: S&P Global Ratings.

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Outlook

The stable outlook reflects that we expect Alfa Laval will continue to generate solid FOCF despite capacity investments, owing to supportive demand from most of the company's end markets. We expect the group will maintain FFO to debt well above 45% in 2024-2025 and maintain EBITDA margins of 18%-19%.

Downside scenario

We could lower the rating if Alfa Laval's credit ratios materially depart from our expectations, including FFO to debt below 45%, with no prospects for short-term recovery. This could follow a material deterioration of economic conditions beyond what we currently envision or large unanticipated acquisitions.

We could also lower the rating if Alfa Laval's profitability deteriorates from historical levels, specifically if its EBITDA margins drop significantly below 18% without near-term prospects for recovery. This could stem from further substantial restructuring expenses, or a sharper-than-expected weakening of end markets, resulting in declining sales volumes and order intake, and insufficient counterbalancing measures from the company.

Upside scenario

We see limited rating upside over the next two years. We could take a positive rating action if we observe a material strengthening of credit ratios, including management's commitment to maintaining a stronger balance sheet and supportive financial policies, leading to FFO to debt materially above 60%, notwithstanding the business cycle and the company's appetite for acquisitions.

Our Base-Case Scenario

Assumptions

- Low confidence in Europe, owing to geopolitical tensions, restrictive monetary policy over the past two years, and concerns regarding the region's competitiveness versus the U.S. and China. As a result, we expect growth in the eurozone economy to be weaker than in other regions, at 0.8% in 2024 and 1.2% in 2025. China's growth will be constrained by slower global demand and U.S. trade policy, but the proposed stimulus package should provide some support. Overall, we now forecast GDP growth in China of 4.8% in 2024 and 4.1% in 2025. In the U.S., we forecast 2.7% GDP growth for 2024 and 2.0% for 2025, incorporating partial implementation of proposed policies.
- Despite macroeconomic concerns, revenue growth of 6%-8% in 2024 for Alfa Laval, supported by strong order activity, as demonstrated in the solid order backlog, which reached SEK52.1 billion, as of Sept. 30, 2024. For 2025, we anticipate revenue growth will moderate to 3%-4%, with continued demand from energy transition and sustainable solutions, after revenue growth of 22% in 2023.
- An adjusted EBITDA margin of about 19% in 2024-2025, mainly backed by an efficient price input mix and robust volumes but also the benefits of the group's completed cost restructuring programs for part of its marine and energy segments.
- Working capital release of about SEK400 billion in 2024, at about the same level as in 2023. This compares with the unusually high absorption of SEK3.2 billion in 2022, materially affected by supply chain constraints.
- S&P Global Ratings-adjusted capex increasing to SEK2.8 billion 2024 and SEK2.9 billion in 2025, in line with the company's guidance, as a result of capacity investments to support the strong demand. This compares with capex of SEK2.4 billion in 2023.
- Acquisition spending at about SEK1.0 billion in 2024 and about SEK10.0 billion in 2025, after SEK337 million in 2023 and SEK3.2 billion in 2022.
- Dividend payments of about SEK3.1 billion in 2024 and SEK 3.7 billion in 2025, compared with SEK2.5 billion in 2023.

Key metrics

Alfa Laval AB--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Mil. SEK)	2021a	2022a	2023a	2024e	2025f
Revenue	40,911	52,135	63,598	68,014	70,288
EBITDA	8,036	9,279	11,650	12,899	13,361
Less: Cash interest paid	(210)	(290)	(489)	(410)	(568)
Less: Cash taxes paid	(1,599)	(1,834)	(1,933)	(2,091)	(2,513)
Funds from operations (FFO)	6,227	7,155	9,228	10,399	10,279
Capital expenditure (capex)	1,229	1,853	2,440	2,789	2,882
Free operating cash flow (FOCF)	3,909	1,244	6,413	7,161	6,456
Dividends	2,309	2,492	2,498	3,100	3,689
Acquisitions	3,828	3,685	337	1,000	10,000
Debt	10,088	16,209	13,059	10,422	17,392
Adjusted ratios					
Annual revenue growth (%)	(1.3)	27.4	22.0	6.9	3.3
EBITDA margin (%)	19.6	17.8	18.3	19.0	19.0

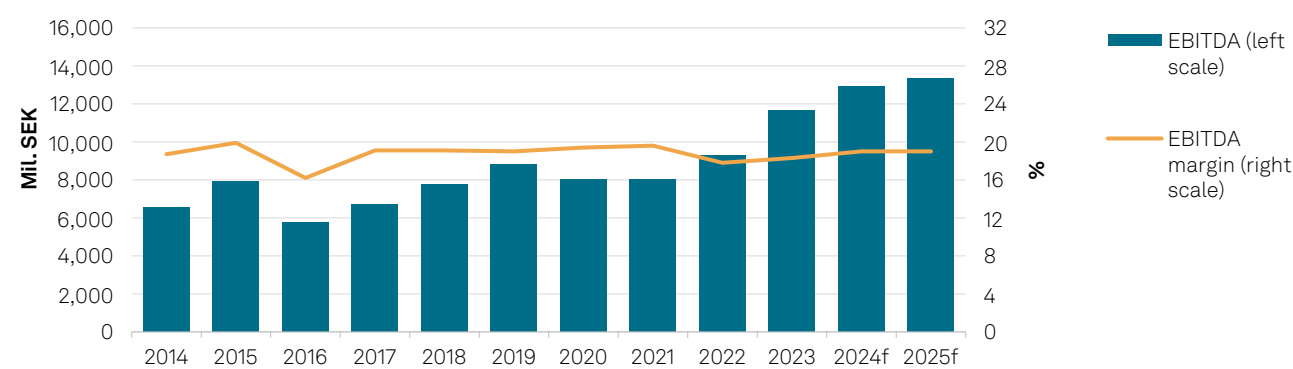
Alfa Laval AB--Forecast summary

Debt/EBITDA (x)	1.3	1.7	1.1	0.8	1.3
FFO/debt (%)	61.7	44.1	70.7	99.8	59.1
FOCF/debt (%)	38.7	7.7	49.1	68.7	37.1

Company Description

Alfa Laval is a leading global supplier of products and solutions for heat transfer, separation, and fluid handling. For 2023, the group reported revenue of SEK63.6 billion, up 22% against the figure in 2022. Its EBITDA margin, adjusted by S&P Global Ratings, stood at 18.3% in 2023, compared with 17.8% in 2022.

Alfa Laval AB--Evolution of EBITDA and EBITDA margins



SEK--Swedish krona. f--Forecast. Source: S&P Global Ratings.

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Alfa Laval's main products are:

- Heat transfers used in heating, cooling, and ventilation systems, representing 30%-35% of market share and 40% of the group's revenue in 2023.
- Separators and decanters to separate liquids from other liquids or solids, representing 25%-30% of market share and 16% of 2023 revenue.
- Sanitary fluid-handling equipment--including pumps, valves, and fittings--representing a 10%-15% market share and 20% of the group's consolidated 2023 revenue.

Alfa Laval reports under three main business divisions with a shared supply chain:

- The Energy division serves clients focused on O&G, heating, vacuuming and air conditioning, and refrigeration. Sales in 2023 totaled SEK19 billion, or 30% of consolidated revenue.
- The Food & Water division offers food, pharmaceuticals, biotech, vegetable oils, breweries, dairy, and body care products. In addition, it focuses on public and industrial water and wastewater treatment. Sales in 2023 totaled SEK25 billion, or 40% of consolidated revenue.

Alfa Laval AB

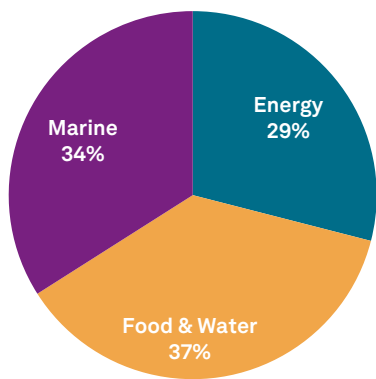
- The Marine division targets ship owners, shipyards, manufacturers of diesel and gas engines, and companies that specialize in offshore extraction of oil and gas. Total sales in 2023 amounted to SEK19 billion, or 30% of consolidated revenue.

Alfa Laval's customers operate in the sanitary, food and brewery, ship manufacturing, utility, pharmaceutical, forest products, oil and gas, chemicals, and original equipment manufacturing industries. The group has a diversified geographic span. Europe accounted for about 32% of orders received in 2023, and the remainder stemmed from Asia (41%), North America (19%), Latin America (5%), and Africa and Oceania (3%).

Alfa Laval was first listed on the Stockholm Stock Exchange in 1901. It remained there for 90 years until Tetra Pak bought the company in 1991. Alfa Laval returned to the stock exchange on May 17, 2002. The largest shareholder is Winder Holding AG, (formerly Tetra Laval International SA, ultimately owned by Tetra Pak), which controls 29.5% of Alfa Laval's capital. Free float represents about 70% of shares outstanding. The company's market capitalization as of Dec. 18, 2024, was about SEK192 billion.

Alfa Laval AB--Order intake breakdown by division

Based on fiscal year 2023 reported figures



Source: S&P Global Ratings.

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Peer Comparison

Alfa Laval's operations are similar in scale to Epiroc's, but smaller than a few other investment-grade rated peers. However, broad end-market diversity partially counterbalances the group's moderate size with margin stability. In our view, Alfa Laval's diversity is still moderate when compared with that of peers in the wider capital goods industry, such as Atlas Copco, ABB, and Siemens.

At the same time, over the past few years, the company was able to materially strengthen its balance sheet. Consequently, we anticipate that its S&P Global Ratings-adjusted FFO to debt will be materially stronger than Sandvik's or Epiroc's. We believe the company's financial flexibility will be dedicated to acquisitions as soon as the right targets arise.

Alfa Laval AB--Peer Comparisons

Alfa Laval AB	Sandvik AB	Atlas Copco AB	Epiroc AB	Danfoss A/S
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Alfa Laval AB--Peer Comparisons

Foreign currency issuer credit rating	BBB+/Stable/--	BBB+/Stable/A-2	A+/Stable/A-1	BBB+/Stable/--	BBB/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/--	BBB+/Stable/A-2	A+/Stable/A-1	BBB+/Stable/--	BBB/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	SEK	SEK	SEK	SEK	SEK
Revenue	63,598	126,503	172,664	60,343	118,427
EBITDA	11,650	28,843	44,930	15,314	19,597
Funds from operations (FFO)	9,228	19,398	35,289	11,026	14,517
Interest	537	2,677	873	580	1,478
Cash interest paid	489	2,593	883	757	1,467
Operating cash flow (OCF)	8,853	18,796	26,993	6,880	15,351
Capital expenditure	2,440	5,314	4,360	1,164	6,692
Free operating cash flow (FOCF)	6,413	13,482	22,633	5,716	8,659
Discretionary cash flow (DCF)	3,915	6,979	10,179	1,610	5,613
Cash and short-term investments	5,863	4,363	10,887	6,401	4,102
Gross available cash	5,863	4,363	10,887	6,401	4,102
Debt	13,059	44,335	25,718	9,571	32,081
Equity	37,378	87,697	91,500	37,210	60,503
EBITDA margin (%)	18.3	22.8	26.0	25.4	16.5
Return on capital (%)	18.2	17.8	33.9	31.4	15.2
EBITDA interest coverage (x)	21.7	10.8	51.5	26.4	13.3
FFO cash interest coverage (x)	19.9	8.5	41.0	15.6	10.9
Debt/EBITDA (x)	1.1	1.5	0.6	0.6	1.6
FFO/debt (%)	70.7	43.8	137.2	115.2	45.3
OCF/debt (%)	67.8	42.4	105.0	71.9	47.9
FOCF/debt (%)	49.1	30.4	88.0	59.7	27.0
DCF/debt (%)	30.0	15.7	39.6	16.8	17.5

Business Risk

Alfa Laval has a robust position in its core businesses. According to its 2023 results, it holds market-leading positions in heat transfer (30%-35% market share), separation (25%-30% market share), and fluid handling (10%-15% market share) through key products like heat exchangers, separators, pumps, and valves. The group's record as a reliable supplier of quality products, and its global service network underpin its strong brand name. Alfa Laval already offers a wide range of products that reduce energy consumption and emissions in different industries and industrial processes. The group has significant experience within sustainable solutions and invests about 2.5% of sales in research and development a year, and we believe Alfa Laval is well positioned to innovate within these areas in the future.

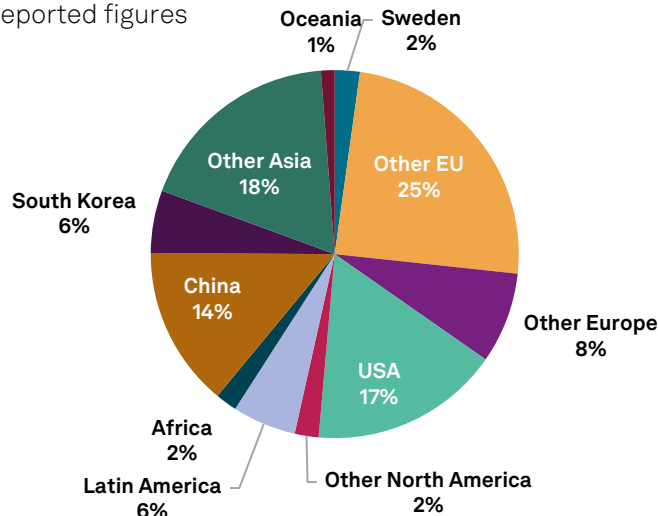
The company also has a large, diverse customer base and balanced geographic presence. No single customer accounts for more than 10% of net sales. The company's largest customer is

Tetra Laval Group, which represented about 5.4% of sales in 2023. Furthermore, the company's geographic diversity reduces the effects of regional cyclicality. In 2023, the group derived about 39% of its sales from Asia-Pacific, 35% from Europe, 19% from North America, and 8% from other locations. That said, the U.S. and China are the largest markets, with 16.7% and 14.1% of sales, respectively, in 2023.

We expect Alfa Laval to maintain EBITDA margins higher than 18% over the cycle. In our view, Alfa Laval's strong profitability for the industries it operates in supports its business risk. The company's efforts to streamline its Energy and Marine divisions have kept its EBITDA margin resilient. Despite a challenging operating environment due to negative macroeconomic conditions, the company's adjusted EBITDA margin remained solid at 18.3% in 2023, after 17.8% in 2022 when it was hit by SEK767 million in restructuring costs and a drop in profitability within parts of the Marine division, due to low capacity utilization. We view the company's flexible cost structure positively, since it enables the group to sustain its EBITDA margin of 18%-19%, despite its exposure to the volatile O&G and shipping sectors, where investment levels fell materially over 2014-2017.

Alfa Laval AB--Consolidated sales breakdown by geography

Based on fiscal year 2023 reported figures



Source: S&P Global Ratings.

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Financial Risk

Alfa Laval has clearly defined processes for managing its capital allocation. The group aims to expand annual sales by at least 5%, measured over a business cycle (revenue increased 22% in 2023 and 27.4% in 2022). In terms of profitability, it aims to achieve an adjusted EBITA margin of at least 15%, based on its own definition. In 2023, the company's adjusted EBITA margin rose to 16.1% from 15.8% in 2022. Alfa Laval's board also targets a return on capital of at least 20%. In 2023, the group achieved 21%, while for 2022, when material supply chain disturbances ultimately affected working capital dynamics, the return on capital was 17.3%. All these operational goals are calibrated on a leverage target, which stipulates that the company's net debt to EBITDA based on Alfa Laval's definition should not exceed 2.0x. Based on the company's financial accounts, its net debt to EBITDA for the period ended Sept. 30, 2024, was 0.61x (or 0.8x as adjusted by S&P Global Ratings); net debt to EBITDA was 0.85x and 1.47x in 2023 and 2022, respectively (or 1.1x and 1.7x as adjusted by S&P Global Ratings).

We believe that using all the headroom under its leverage target could result in our adjusted FFO to debt metric being below our 45% threshold for the 'BBB+' rating. Based on the company's definition, its debt to EBITDA averaged 1.08x over the last eight years. At the same time, we estimate that if the company used its full flexibility under its net debt to EBITDA threshold of 2.0x, this would result in an S&P Global Ratings-adjusted FFO to debt ratio of about 35%, all else being equal. In 2023, Alfa Laval's FFO to debt reached 70.7% up from 44.1% in 2022.

At the same time, the company has a positive track record of quickly reducing leverage following large acquisitions. For example, the 2014 debt-financed acquisition of Frank Mohn tripled the company's debt and materially weakened its credit ratios. That year, Alfa Laval's S&P Global Ratings-adjusted FFO to debt decreased to 24.2% from 82.1% in 2013, subsequently improving toward 40% in 2015, thanks to fast deleveraging. In 2020, Alfa Laval tried to buy all of Finland-based flow control company Neles for about SEK19.0 billion; eventually, the takeover plans were halted. More recently, the company has embarked on bolt-on acquisitions. In 2021, it acquired Norway-based marine digital services company StormGeo for Norwegian krone (NOK) 3.6 billion (SEK3.8 billion). In 2022, the group acquired Belgium-based engineering company Desmet, a carve out of Desmet Ballestra Group, for SEK3.7 billion. Occasionally, the company embarks on share-buyback programs, such as the one it launched in 2021 when it aimed to buy up to 5% of its share capital on the market. Between 2020 and 2021 under the program, Alfa Laval acquired SEK2 billion of its own shares.

The group has a defined dividend policy. This policy stipulates that the group should distribute about 40%-50% of its net profit to shareholders. In 2024, the company paid SEK3.1 billion in dividends representing a payout ratio of about 50% after SEK2.5 billion paid in 2023 (payout ratio of 54.7%). Under our base case, we anticipate that the company's payout ratio will remain at 50%.

Debt maturities

Debt maturity profile as of Sept. 30, 2024:

- Short term debt amounting to SEK476 million due by Sept. 30, 2025.
- About SEK1 billion bond due in November 2025.
- €300 million bond due in February 2026.
- About SEK1.2 billion loan due in May 2027.
- About SEK1.2 billion loan due in May 2028.
- €300 million bond due in February 2029.

Alfa Laval AB--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	SEK	SEK	SEK	SEK	SEK	SEK
Revenues	40,666	46,517	41,468	40,911	52,135	63,598
EBITDA	7,771	8,830	8,045	8,036	9,279	11,650
Funds from operations (FFO)	5,810	6,648	6,248	6,227	7,155	9,228
Interest expense	382	347	301	248	350	537
Cash interest paid	318	281	260	210	290	489

Alfa Laval AB--Financial Summary

Operating cash flow (OCF)	5,183	5,062	7,522	5,138	3,097	8,853
Capital expenditure	1,490	1,337	1,232	1,229	1,853	2,440
Free operating cash flow (FOCF)	3,693	3,725	6,290	3,909	1,244	6,413
Discretionary cash flow (DCF)	1,910	1,628	6,290	261	(1,909)	3,915
Cash and short-term investments	4,912	6,467	7,768	3,647	4,663	5,863
Gross available cash	4,912	6,467	7,768	3,647	4,663	5,863
Debt	12,636	13,112	7,901	10,088	16,209	13,059
Common equity	23,599	27,747	29,071	32,344	35,704	37,378

Adjusted ratios

EBITDA margin (%)	19.1	19.0	19.4	19.6	17.8	18.3
Return on capital (%)	17.0	18.4	14.7	15.7	14.1	18.2
EBITDA interest coverage (x)	20.3	25.4	26.7	32.4	26.5	21.7
FFO cash interest coverage (x)	19.3	24.7	25.0	30.7	25.7	19.9
Debt/EBITDA (x)	1.6	1.5	1.0	1.3	1.7	1.1
FFO/debt (%)	46.0	50.7	79.1	61.7	44.1	70.7
OCF/debt (%)	41.0	38.6	95.2	50.9	19.1	67.8
FOCF/debt (%)	29.2	28.4	79.6	38.7	7.7	49.1
DCF/debt (%)	15.1	12.4	79.6	2.6	(11.8)	30.0

Reconciliation Of Alfa Laval AB Reported Amounts With S&P Global Adjusted Amounts (Mil. SEK)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023									
Company reported amounts	13,607	37,033	63,598	11,780	9,256	506	11,650	9,169	2,498	2,440
Cash taxes paid	-	-	-	-	-	-	(1,933)	-	-	-
Cash interest paid	-	-	-	-	-	-	(489)	-	-	-
Trade receivables securitizations	10	-	-	-	-	-	-	5	-	-
Lease liabilities	2,601	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	845	-	-	(78)	(78)	31	-	-	-	-
Accessible cash and liquid investments	(4,004)	-	-	-	-	-	-	-	-	-
Income (expense) of unconsolid. cos.	-	-	-	(52)	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	159	-	-	-	-	-

Reconciliation Of Alfa Laval AB Reported Amounts With S&P Global Adjusted Amounts (Mil. SEK)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(321)	-	-
Noncontrolling/minority interest	-	345	-	-	-	-	-	-	-	-
Total adjustments	(548)	345	-	(130)	81	31	(2,422)	(316)	-	-
S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	13,059	37,378	63,598	11,650	9,337	537	9,228	8,853	2,498	2,440

Liquidity

We consider Alfa Laval's liquidity strong, with a sources-to-uses ratio of about 2.5x over the coming 12 months and 1.8x over the 24 months started Oct. 1, 2024. We also believe the group's geographic and end-market diversity should enable it to absorb high-impact, low-probability events in some sectors without refinancing. Other supportive factors include Alfa Laval's solid relationships with banks and its high standing in credit markets, as demonstrated by its repeated access to capital markets, and the solid investment-grade rating.

Principal liquidity sources

- Cash and liquid investments of about SEK3.7 billion, excluding our assessment of about SEK1.6 billion of cash which we do not consider available.
- A fully undrawn bank line of €700 million (about SEK8.0 billion) maturing in April 2028.
- Cash FFO of SEK8.5 billion-SEK9.0 billion per year.
- Working capital inflows of about SEK50 million over the 12 months started Oct. 1, 2024.

Principal liquidity uses

- Debt maturities of about SEK0.5 billion for the 12 months started Oct. 1, 2024, and about SEK4.4 billion due in the following 24 months.
- Working capital outlay of about SEK150 million over the 12 months started Oct. 1, 2025.
- Intra-seasonal working capital swings of about SEK1.0 billion per year.
- Reported capex of about SEK2.8 billion-SEK3.0 billion per year over the next two years.
- Dividends of SEK3.6 billion-SEK3.9 billion per year.

Environmental, Social, And Governance

Environmental factors are currently a neutral consideration in our credit analysis of Alfa Laval. The company has considerable exposure (about 35% of orders) to industries that carry above-average environmental risk, such as O&G, chemicals, shipping, energy downstream operations, and power generation. At the same time, these end market companies will need to invest substantially in the energy transition and path to carbon neutrality in the next few years. In addition, and most importantly, the products Alfa Laval offers are aimed at increasing energy

efficiency, which in turn will allow companies to better control energy costs. Alfa Laval's sales and order intake are positively influenced by these trends as the company offers products aimed at reducing the emissions from and consumption of fossil fuels, which offset its exposure to sectors carrying above-average environmental risks. We believe there are uncertainties regarding those future profit pools. However, in our view, Alfa Laval--with its long experience, resources, and leading market positions within its core technologies, for example heat exchangers--is well positioned to capture future opportunities that relate to the need to optimize and transition.

We view as positive that the company is rapidly developing its product offering to optimize the use of energy and to facilitate the energy transition and emissions reduction in its end markets, both organically and inorganically. The heat exchangers so far installed by Alfa Laval help customers reduce their heat capacity needs by 100 gigawatts a year. Alfa Laval's research and development activities currently represent about 2.5% of its sales. In addition, Alfa Laval is expected to keep its capex at about 4% of its sales, translating into capex of about SEK3 billion per year over 2024-2025, to continue to develop and evolve according to the more sophisticated products and services. We do not expect this capex will materially affect the group's free cash flow generation.

We also note as positive that Alfa Laval has worked hard to reduce fuel consumption and improve the energy efficiency of its products over the past few years. For example, between improvements, upgrades, and entirely new products, Alfa Laval launched on average 100 products per year and had over 4,200 patents at the end of 2023.

Alfa Laval's public disclosure and governance framework is consistent with accepted standards, and we see no governance-related issues.

Issue Ratings--Subordination Risk Analysis

Capital structure

Alfa Laval's capital structure comprises senior unsecured debt issued at its financing subsidiary, Alfa Laval Treasury International AB.

Analytical conclusions

We rate Alfa Laval's debt 'BBB+', in line with the issuer credit rating, because no significant elements of subordination risk are present in the capital structure. This is also supported by the group's low leverage and our view of modest financial risk.

Rating Component Scores

Foreign currency issuer credit rating	BBB+/Stable/--
Local currency issuer credit rating	BBB+/Stable/--
Business risk	Satisfactory
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	Modest
Cash flow/leverage	Modest
Anchor	bbb+
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb+

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Nordic Capital Goods Companies: Margins remain relatively resilient, although M&A has eroded ratings leeway, Dec. 17, 2024
- Industry Credit Outlook Update: Capital Goods Europe, July 18, 2024
- Tear sheet: Alfa Laval AB, April 22, 2024
- Alfa Laval AB, Dec. 21, 2023

Ratings Detail (as of December 16, 2024)*

Alfa Laval AB	
Issuer Credit Rating	BBB+/Stable/--
Issuer Credit Ratings History	
17-Nov-2020	BBB+/Stable/--
14-Jul-2020	BBB+/Watch Neg/--
01-Apr-2020	BBB+/Negative/--
*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.	

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